

**FOREST OIL CORPORATION**  
**AUDIT EXCEPTION NO. 26 (Revised Mar 07/03)**  
**FOC AUDIT NO. 03-06-NO**

AUDITOR: REK  
DATE: 03/07/03

OPERATOR: UNOCAL

PROPERTY: See Attached Schedule

AFE/LEASE NO. See Attached Schedule

BILLING MONTH: Various

DOCUMENT REF: See Attached Schedule

VENDOR: See Attached Schedule

INVOICE NO: See

INV. DATE

See

INV. AMT:

See Attached Schedule

Attached  
Schedule

Attached  
Schedule

**DESCRIPTION OF EXCEPTION:**

**Warehouse Costs**

Operator charged the joint account for various warehousing costs totaling \$231,449.99 (see attachment Allocation JADE). Per the Accounting Procedures, Section III. Overhead "As compensation for administrative, supervision, office services and warehousing costs, Operator shall charge the Joint Account in accordance with this Section III." COPAS Bulletin 20 - Section IV, Costs included in Shore Base Operations further supports the exclusion of warehouse costs as a direct charge to the Joint account. It states that "Care should be taken to exclude costs which may occur at the Shore Base facility location but which do not apply to Shore Base Facility operations (e.g. warehouse space...warehouse personnel, etc.)

To further clarify the nature of the warehouse costs to be covered by overhead, the parties executed a *Statement of Clarification and Intent*. Point number 4 of the statement only supports directly charging certain Operator employees "...material expeditor(s), warehousemen and dispatchers either permanently or temporarily assigned to Alaska, performing services for the direct benefit of the joint account".

**Breakdown of Warehouse Charges**

Warehouse Rental Costs	40,120.00
Utility Costs	11,075.60
Janitorial Services	1,444.00
Loader Rental	13,836.74
Contract Warehouse & Adm Employees	129,359.62
Misc.-Computer/Training/Tools	35,614.03
Subtotal Costs	231,449.99
Overhead 6%	13,887.00
Total Exception	245,336.99

**DEPOSITION  
EXHIBIT**

FISCALACH 29  
6/19/07 JAB

Forest Oil asks the Operator to credit the joint account \$ 245,336.99 for the warehousing cost the are recovered through the application of percentage basis overhead that were charged through the ADT1 cost center (# 1007079000).

**CREDIT REQUESTED \$ 245,336.99**

**OPERATOR'S RESPONSE:**

FOC-CO 013482

**Audit Reply****TRADING BAY UNIT**

Forest Oil Corp.

Auditor's Reference No.: 03-06-NO

Unocal's Reference No: 03-01

Period: January 2000 - December 2000

Original Claim

\$ 245,336.99

**Exc. # 26 Warehouse Costs**

Operator charged the Joint Account for various warehousing costs through cost center 1007079000, which is partially allocated to the Joint Account.

**Operator's Response:**

Please be aware that the costs referenced do not pertain to a warehouse operation. This is a dock operation which because of extreme winter weather conditions must necessarily have a covered / indoor area to receive and prepare materials, supplies, and equipment for movement to another location. What do you call such a structure? The informal name of "warehouse" for an operations building does not automatically qualify the dock operation as a warehouse as envisioned by COPAS and our agreements.

Unocal has been operating at this location for many years. Prior audits by Mobil, ARCO, Getty, and Marathon have all noted this terminology. After on site reviews by knowledgeable representatives, all have accepted that this is a dock operation and that it is fully chargeable under the terms of our agreements. Unocal intentionally keeps real warehouse stores and activity at other locations. Exception denied.

NOTE: The auditor did not adequately document this exception. Destination cost centers and amounts were missing from the documentation.

Audit Exception / Claim Amount	
Granted	Denied
-	245,336.99
Total Of Operator's Response: TBD	\$ 245,336.99
Balance of Exception Still Pending:	\$ -

FOC-CO 013865

(Unless otherwise stated, all amounts are written in Gross W.I. Dollars.)

 EXHIBIT L  
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